

Approved as Submitted: June 25, 2003

**CITY OF MORGAN HILL  
JOINT SPECIAL CITY COUNCIL  
AND SPECIAL REDEVELOPMENT AGENCY MEETING  
MINUTES – JUNE 11, 2003**

**CALL TO ORDER**

Mayor/Chairman Kennedy called the special meeting to order at 6:00 p.m.

**ROLL CALL ATTENDANCE**

Present: Council/Agency Members Carr, Chang, Sellers and Mayor/Agency Chairman Kennedy  
Absent: Council/Agency Member Tate.

**DECLARATION OF POSTING OF AGENDA**

City Clerk/Agency Secretary Torrez certified that the meeting's agenda was duly noticed and posted in accordance with Government Code 54954.2.

**SILENT INVOCATION**

**PLEDGE OF ALLEGIANCE**

**PUBLIC COMMENT**

***City Council and Redevelopment Agency Action***

**CONSENT CALENDAR:**

**Action:** *On a motion by Council/Agency Member Carr and seconded by Council/Agency Member Sellers, the Council/Agency Board, on a 4-0 vote with Council/Agency Member Tate Absent, Approved Consent Calendar Item 1, as follows:*

1. **JOINT REDEVELOPMENT AGENCY AND SPECIAL CITY COUNCIL MEETING  
MINUTES OF MAY 28, 2003**

**Action:** *Approved the minutes as written.*

***City Council and Redevelopment Agency Action***

**OTHER BUSINESS:**

2. **2003-2004 BUDGET WORKSHOP**

City Manager/Executive Director Tewes presented the staff report, indicating that the City Council scheduled this special meeting for the purpose of continuing its review of the proposed 2003-04 Budget and Capital Improvement Program. He indicated that at the last Council workshop, the Council asked staff a series of questions which staff has responded to in the staff report. He indicated

that a power point presentation will review some of the issues and information that the Council has seen before. Staff will provide additional scenarios and answer questions previously raised by the Council. He indicated that department heads and key budget staff members were in attendance and available to walk the Council through the review of the budget. He informed the Council that the budget is scheduled for its adoption consideration on June 18, 2003, following a public hearing. He said that one of the major uncertainties facing the City is the effect of the State's budget. He felt that it would be fruitless to speculate what would happen to the City's budget with respect to the effect of the State budget on local government. He said that it would be highly unlikely that the State will meet its constitutional deadline for the adoption of the budget. Staff recommends that the Council proceed to adopt the budget, as recommended, as it addresses local challenges imposed. He said that the local economy is not sufficient to generate enough revenue to sustain the level of services the community has come to enjoy. He noted that the budget puts the City on a five year path to meet the challenges. He indicated that the proposed budget meets all of the needs of the community. As the community grows and expectations increase, its needs will not be met by the City as the City will have to shrink the organization in order to meet the five year plan. However, in the five year plan and with the City's substantial reserves, it gives the City the opportunity to proceed in a thoughtful and managed approach versus immediately making major reductions in services. He indicated that the proposed budget for the year is the first of a five year plan.

Finance Director Dilles presented a power point presentation and addressed budget challenges. He addressed how the City would balance revenues and expenditures by 2007-08 (five years). He said that \$189,000 would need to be cut from the budget document for Fiscal Year 2003-04 and that this number would need to increase twice this amount each of the five years in order to bring revenues and expenditures into balance.

City Manager/Executive Director Tewes stated that at the previous budget workshop, staff informed the Council/Agency that it did not make many, if any, structural changes in the proposed budget. Examples of structural changes that occurred in the early 1990s were the significant reduction to the police force, elimination of recreational services and contracting out fire services. He indicated that when the Council decided to use one time reserves in the vehicle replacement fund, it was not a structural change. He said staff's forecast includes one important structural change. He said that historically, the City transfers funds from the general fund to the street fund to help sustain the street maintenance effort. He felt that it was important for the Council to understand that the five year plan already assumes that the City will no longer contribute to street maintenance from the general fund. He said that this is a structural change that is adopted in the five year forecast.

Finance Director Dilles referred the Council/Agency to page 43 of the Agenda packet. He said that not only are the City's revenues and expenditures considered to be imbalance at this point, but that the City would end up approximately \$90,000 short of the 40% reserve level at this point. He presented a scenario in which \$824,000 is used as a one time cost reduction rather than performing the escalating cuts that would go up each year by approximately \$189,000. If the City instead carves \$124,000 out of next year's budget or finds a new revenue source, this would have a similar affect. The \$124,000 would be structural and would need to be in place every year. This scenario would place the City in

balance by the end of five years and would give the City a positive fund balance by approximately \$1.5 million at the end of the five years. The Council asked that staff look further at potential revenue enhancement measures. He said that the Finance & Audit Committee has reviewed possible revenue enhancement measures, including a 55% survey result of individuals in support of a \$10 per month increase in local taxes to maintain police and fire protection as well as parks and recreation services. Those individuals who did not support the increase indicated that they would support a tax if the dollars were used not just to maintain but to enhance services. He said that the result of the responses of the additional question brought up the total support from 55% to 64% to expand and maintain services. He felt that the survey shows some level of support for some kind of a tax increment. He summarized that what the scenarios show that if the City pays \$3.1 million in general plan fund for the police facility, cut \$175,000, escalating each year for five years, and reduce the reserve requirements down to 23% would result in a picture where revenues and expenditures are in balance at the end of the five year period. He said that this is one scenario and that there may be other scenarios that can be studied.

City Manager/Executive Director Tewes said that included in the agenda packet, but not in the power point presentation, were a series of answers to questions relating to the Capital Improvement Programs such as projects funded in future years that were based on certain assumptions about revenues.

Council/Agency Member Sellers stated that he appreciated the extra work that has been put into the five year budget. However, it was frustrating to hear individuals state that the City is in a deficit because the City is not talking about it this year in terms of raw numbers. He said that fundamentally, the City is talking about preserving the 40% reserve while making, in subsequent years, what he considers to be draconian cuts in services and institutionalizing them as “structural changes.” This was another way of stating that cuts in personnel and services would be made. He stated that he did not agree with this concept as it does not make sense. He said that the Council should be reluctant to do this in any event, particularly when the City is sitting on a very excessive reserve. He felt that the Fiscal Year 2003-04 budget is a sound one and that it makes sense to move forward with it. He felt that there were some assumptions that the Council was making that were wrong and that he would like to address these as the Council moves forward. He felt that the first opportunity that the Council would have to address the assumptions would be in the fall when the City receives better numbers from the State. The Council would be looking at this in subsequent years as well. He felt that the Council needs to revisit the whole issue of the reserve policy. He recommended that the Council adopt the budget on June 18 and make changes as it moves forward.

City Manager/Executive Director Tewes indicated that staff is recommending the budget before the Council and that staff believes that it is a responsible approach to the five year plan. Staff is recommending Council approval of the first year of the five year plan. He clarified that his comments alluded to possibly consequences in future years.

Council/Agency Member Sellers felt that it would be sound to approve the budget before the Council once it has gone through the budget process. He said that the Council can go back and review the

different scenarios and assumptions presented this evening. He felt that the Council needs to identify, quantitatively, where the cuts would come from and what services would not be offered. He felt that staff has done an incredible job of shielding the Council from the implications of some of the assumptions. He felt that once the Council gets pass this budget, it would be vital for the Council to address implications and possible cuts.

Mayor Pro Tempore/Vice-chair Chang agreed that the reserve policy should be revisited in the fall. She would like to discuss the various scenarios as well as the reserve policy. She felt that the Council needs to understand what is meant by a “soft landing.” She stated that she supports the budget as presented and that she did not want to make any structural cuts at this time. She understood the \$189,000 reduction as a beginning number in order to achieve a soft landing but that she was not considering doing so this year. She recommended that the Council revisit the budget in October when the State identifies its budget. She felt that there was some flexibility in dealing with the budget.

Council/Agency Member Carr felt that it would be prudent for the Council/Agency to look further at the implications and what these implications mean. He did not believe that this has to take place before the Council/Agency adopts the budget. He felt that the City Manager/Executive Director laid out a realistic scenario for the Council to consider with different implications based on what happens with the State’s budget in the next few months. He recommended that the Council/Agency be prepared to adopt the budget with the idea that it spends the next 3-4 months studying budget implications. These may become things that get inserted into the budget or into the five year plan. He noted that the scenarios presented by staff talks about annual cost reduction plans. In addition to these, the Council/Agency could be discussing revenue enhancements. He felt that a combination of these two would be important to investigate. He said that the Council needs to discuss the reserve policy. He would agree to spend some time once the Council adopts the Fiscal Year 2003-04 budget to study issues and how they would play out over the five year projections.

Mayor Pro Tempore/Vice-chair Chang stated that it was her hope that the economy will improve and that the growth will be greater than 3%. It was also her hope that the City would not need to make cuts or structural changes. She felt that the budget could be reviewed on a year to year basis.

Mayor/Chairman Kennedy indicated that he is often asked by members of the community and other communities how the City is doing financially. He felt that the City was being “cautiously optimistic.” When compared to San Francisco and San José, the City of Morgan Hill is in great shape. However, this does not mean that the City is without areas of concern and should be focused on. He felt that the approach that the budget presents is one that takes a prudent approach; one that the Council/staff will hold the line on expenditures, and try to keep control of costs without adversely impacting services. The Council will need to look at finding new sources of revenues. He agreed that the Council needs to revisit the reserve policy in the fall, noting that the City has a healthy reserve that is 60-65% of the general fund budget. He felt that it was important for the Council to look at a five year projection and consider the various options so that the City knows what it is getting into as it moves forward. The Council could be prepared to make mid course corrections, as necessary. He felt that the budget clearly shows that the City needs to be careful with its expenditures and that there

needs to be continuous focus on finding new sources of revenues for the City. He noted that the City is one of the lowest sales tax producing cities per capita of any city in Santa Clara County. The City is one of the lowest spending cities in terms of recreational services per capita for the residents in the community. He felt that residents expect the best and that staff is doing its best to provide these services and yet protect the quality of life. He stated that staff has done an excellent job in preparing/presenting the budget. He supports moving forward with the budget as presented by staff.

Mayor/Chairman Kennedy opened the floor to public comment.

Joe Mueller indicated that the City has been very generous with the Morgan Hill Community Health Foundation since its inception. He said that the City matched the last \$70,000 raised by the Foundation. With the restoration of medical services being high on the priority list, the Foundation would like to request the Council keep in mind the potential for a new match. He said that the two highest priorities of the Foundation are to recruit/retain primary care physicians and to work on extended areas of medical services in Morgan Hill. He requested that the Council/Agency earmark matching funds for a suitable project that may come forward.

No further comments were offered.

City Manager/Executive Director Tewes indicated that the Council previously set aside this Friday as an opportunity for a special workshop to further consider the budget. It was his understanding, based on Council/Agency comments, that the Council does not need to move forward with this special workshop. He stated that the public hearing on the budget will be held on June 18, 2003 where the Council will be asked to adopt the Fiscal Year 2003-04 budget and Capital Improvements Program.

Mayor/Chairman Kennedy requested that funding for medical services be kept on the list as the City continues to move forward.

**Action:**        **No Action Taken.**

### **3.    CAPITAL IMPROVEMENT PROGRAM (CIP)**

City Manager/Executive Director Tewes presented the staff report and indicated that staff has answered a number of questions that the Council has asked. He stated that responsible staff members were in attendance should the Council wish to discuss any single capital improvement item.

Council/Agency Member Carr noted that the packet included questions that both the Planning Commission and the Parks and Recreation raised when reviewing the CIP. He said that one of the things that the City is relying on for the new police facility is the sale of the library land. He inquired whether the assumption would be to sell the library land regardless of the outcome of Proposition 14 dollars.

City Manager/Executive Director Tewes said that the land sale that is being proposed in the CIP would occur if the library was to be built on the land to be sold behind City Hall. If for some reason the City does not use the land, it need not be sold and the City would not receive the proceeds from the land sale. He indicated that the City government owns the property and that the property would be sold to the Redevelopment Agency.

Council/Agency Member Carr noted that there is a \$50,000 expenditure listed for Fiscal Year 2003-04 and \$100,000 in Fiscal Year 2004-05 for the El Toro Youth Center. He inquired whether these were planning dollars for professional services and CIP administration in Redevelopment dollars.

City Manager/Executive Director Tewes indicated that this was a project that would expand the El Toro Youth Center currently operated by Community Solutions. He indicated that approximately two years ago, the Council asked staff to include this in the five year CIP. When the Council did so, there was no identifiable funding source. He said that this was not specifically included within the Redevelopment Agency's allocations of funds. Last year, staff identified the Community Development Block Grant program as a funding source and that the funding source was approved by the Council. This action would require a loan from the CDBG program to be repaid out of future allocations. This would result in projects that the City is currently working not being completed in the future should all of the resources from CDBG funds were to be pledged to repay this loan. However, staff does not know what needs to be done to expand the El Toro Youth Center. Staff is proposing that before investing a lot of monies in capital improvements, that the City conduct a master planning of the area where the Youth Center currently exists along with the Friendly Inn and Galvan Park.

Council/Agency Member Carr noted that the Parks and Recreation Commission asked a question about park land purchase. The Commission felt that all of the funding for this project was transferred to the aquatics complex.

City Manager/Executive Director Tewes stated that a couple of months ago, the Parks and Recreation Commission reviewed options on how to pay for the outdoor sports complex at the Council's request. The Commission recommended that the City initially transfer some monies from the Parks Land Acquisition fund toward this purpose. The Commission's question implies that they thought that the money was all used up. He clarified that there is still money to conduct park land acquisitions even with the advance of funds because there is a continuing source of revenue for the fund. He indicated that each and every year the City receives Park Development Impact Fee funds.

Mayor/Chairman Kennedy recommended that a contingency plan for the Library be discussed in the future so that the City does not lose the opportunity to proceed with the construction of a new library, vacating the old facility so that there is funding available for the new police facility. He noted that the State will be making a decision on the library grant in September. Therefore, he recommended that a contingency plan be scheduled following the award of the grants.

City Manager/Executive Director Tewes indicated that there were 60+ library grant application proposals submitted, five times as many requests as dollars available. The City has improved its

library proposal and stated that it was staff's belief that the City's chances are better than they were in the first round. However, a decision will not be made until September. He indicated that the new police facility would be funded this calendar year. He stated that the new library site is owned by the City-government. The financing plan would be that the Redevelopment Agency would purchase the land. He indicated that the Redevelopment Agency can only purchase the land for an appropriate redevelopment purpose and that library is one of these purposes. If the City does not build a library on the site, he indicated that there were other appropriate Redevelopment purposes for the property that could be discussed that would still allow the Redevelopment Agency to pay the City for the property. He indicated that this discussion could take place in September 2003 without delaying the police facility.

Mayor Pro Tempore/Vice-chairman Chang felt that it was appropriate to use park funds for the aquatics complex as it is a related use.

Mayor/Chairman Kennedy said that yesterday, he made it a point to stop by the Santa Clara Swim Center. It contains a park, community center and a library on the same site. He felt that the City needs to look at other models and that the Santa Clara Community Center/aquatics center/central park was a good model to explore as it serves the athletic sports needs as well as other recreational needs.

Council/Agency Member Carr stated that the City is short \$1 million for Fiscal Year 2003-04 for a regional soccer complex. He did not recall whether the Council defined what the \$1 million would be used for. He felt that before these dollars are spent there needs to be a discussion about these dollars. He stated that it would not be his intention to spend these dollars in another City's jurisdiction to help build the soccer complex. The Council needs to have a good conversation about how the \$1 million would be spent instead of assuming that it would be going to a regional soccer complex that would more than likely be located outside the City's jurisdiction.

Mayor/Chairman Kennedy requested that staff agendize the discussion of the \$1 million at the appropriate time.

Council/Agency Member Sellers said that there was discussion about the elimination of the street maintenance fund as part of the general fund. He felt that this action was appropriate this year and in subsequent years. He stated that he would be sensitive to making this as a structural change. He said that his first term on the Council was spent in trying to catch up on all deferred maintenance throughout the City. Maintenance, in some areas, was too long in coming. As the City moves forward, he would like the Council to look at street maintenance and help define/point out where there are deficiencies that cannot be met with existing funds. The Council may need to look at general funds in subsequent because it does not make sense to go back to where the City was a few years ago.

Mayor/Chairman Kennedy agreed that he did not want to see street maintenance becomes a structural change.

City Manager/Executive Director Tewes indicated that there were two aspects to the street fund: 1) the annual asphalt major repair and 2) rehabilitation work. This is financed from gas tax funds and grants. He noted that the Director of Public Works presented a report that suggests that the City receive an advance on many of the grant funds from VTA. These funds have now been spent. Another source of funding is the Redevelopment Agency. He said that the Redevelopment Agency will run out of funds available to make investments in street improvements next fiscal year when the City completes the resurfacing of Monterey Road based on Agency allocation. He stated that the general fund money has gone not so much to support this kind of activity but rather the on going day to day maintenance activity such as picking up litter, fixing signs, and dealing with pot holes. He indicated that these day to day maintenance activities are the ones likely to suffer by virtue of reduction in funding.

Mayor/Chair Kennedy opened the floor to public comment. No comments were offered.

**Action:**      **No Action Taken.**

## ***City Council and Redevelopment Agency Action***

### **CLOSED SESSIONS:**

City Attorney/Agency Counsel Leichter announced the below listed closed session items.

#### **1.**

##### **CONFERENCE WITH LEGAL COUNSEL - ANTICIPATED LITIGATION**

Significant Exposure/Initiation of Litigation

Authority:      Government Code Sections 54956.9(b) & (c)

Number of Potential Cases:      2

#### **2.**

##### **CONFERENCE WITH LABOR NEGOTIATOR:**

Authority:      Government Code Section 54957.6

Agency Negotiators:      Ed Tewes, City Manager; Helene L. Leichter, City Attorney; Mary Kaye Fisher, Human Resources Director

Employee Organization:      AFSCME Local 101  
Morgan Hill Community Service Officers Association  
Morgan Hill Police Officers Association

Unrepresented Employees:      Custodian/Building Maintenance Worker  
Government Access Technician  
Maintenance Worker Assistant  
Utility Worker Assistant

Executive Management Group 1-A  
Chief of Police  
Director of Business Assistance & Housing Services  
Director of Community Development



Director of Finance  
Director of Public Works/City Engineer  
Human Resources Director  
Recreation and Community Services Manager  
Assistant to the City Manager  
Council Services and Records Manager

Middle Management Group 1-B

Police Captain  
Deputy Director of Public Works  
Assistant City Attorney  
Assistant Director of Finance  
Chief Building Official  
Human Resources Supervisor  
Planning Manager  
Senior Civil Engineer  
Budget Manager  
Business Assistance and Housing Services Manager  
Police Support Services Supervisor  
Senior Planner  
Project Manager  
Utility Systems Manager  
Recreation Supervisor  
Secretary to the City Manager

Confidential Non-Exempt Employees Group 1-C

Administrative Analyst  
Secretary to the City Attorney  
Accounting Technician  
Human Resources Assistant

**3.**

**PUBLIC EMPLOYEE PERFORMANCE EVALUATION**

Pursuant to: Government Code 54957  
Public Employee Performance Evaluation: City Manager  
Attendees: City Council, City Manager

**OPPORTUNITY FOR PUBLIC COMMENT**

Mayor/Chairman Kennedy opened the Closed Session items to public comment. No comments were offered.

**ADJOURN TO CLOSED SESSION**

Mayor/Chairman Kennedy adjourned the meeting to Closed Session at 7:18 p.m.

**RECONVENE**

Mayor/Chairman Kennedy reconvened the meeting at 8:45 p.m.

**CLOSED SESSION ANNOUNCEMENT**

City Attorney/Agency Counsel Leichter announced that no reportable action was taken in closed session.

**ADJOURNMENT**

There being no further business, Mayor/Chairman Kennedy adjourned the meeting at 8:46 p.m.

**MINUTES RECORDED AND PREPARED BY:**

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**IRMA TORREZ, CITY CLERK/AGENCY SECRETARY**